

The California Department of Corporations

INVESTOR EDUCATION *Digest*

Winter 2006

Volume 1, Issue 1

Department of Corporations

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Commissioner's Message

Wayne Strumpfer

Welcome to the first edition of the Department of Corporations' *Investor Education Digest*. In keeping with our mission to educate the public about the risks and rewards in investing and finances, this online publication will offer information about current scams, consumer protection programs run by the Department and ongoing enforcement efforts.

The Department of Corporations (DOC) is California's investment and financing authority. We license and regulate businesses that affect the lives of Californians and represent a significant part of the state's economy, including securities brokers and dealers, investment advisers and financial planners, and certain fiduciaries and lenders. We also regulate the offer and sales of securities, franchises and off-exchange commodities.

In today's investment world, with so many different products to choose from, consumers making complex financial and investment decisions face a daunting task. The *Investor Education Digest* covers important topics related to areas of concern for California investors. We appreciate any feedback you have to offer; please utilize the "contact us" feature on the Department's Education and Outreach web page and let us know what's on your mind. Your input will help ensure this newsletter addresses the financial and investment issues important to you.

An educated investor is less likely to become a victim of financial fraud. The California DOC wants to help consumers protect themselves against fraud and provide the resources to enable Californians to make informed investment decisions. This online newsletter is an additional educational resource for consumers to stay better informed and protected.

Sincerely,

WAYNE STRUMPFER

Acting California Corporations Commissioner

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Financial & Investment News

Coming Soon...Investor Education at Your Library

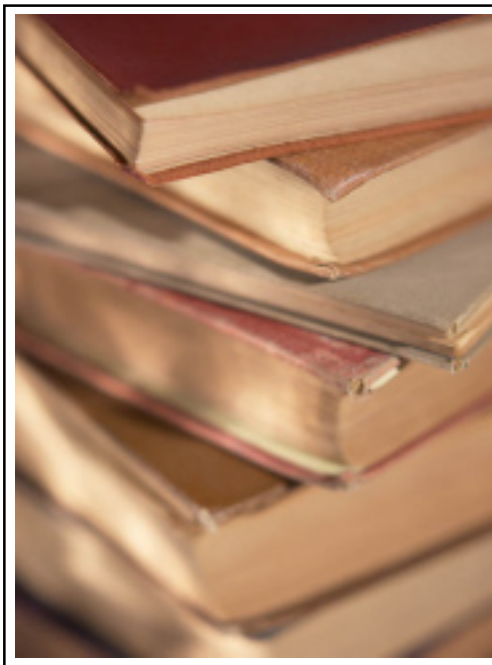
Starting in 2006-2007, there is a new investor education program that could be taking place at your local library. The California Department of Corporations will participate in the **“Investor Education at Your Library” program** – a partnership of the American Library Association (ALA) and the Investor Protection Trust (IPT). This innovative program will provide access to helpful investment literature. Certain public libraries around the country will be selected to host investor education forums to provide members of the public with face-to-face interaction with investment and financial professionals.

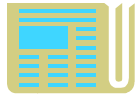
The downtown Sacramento public library will be the first in the nation to host an Investor Education at Your Library forum. A panel of investment and financial professionals will be assembled to speak, followed by free one-on-one consultations available to the audience. In addition, useful investor education materials

will be available for lending. The seven customized booklets, written by the editors of *Kiplinger's Personal Finance* magazine include:

- Five Keys to Investing Success
- The Basics for Investing in Stocks
- A Primer for Investing in Bonds
- Mutual Funds: Maybe all You'll Ever Need
- Getting Help With Your Investments
- Where to Invest Your College Money
- Maximize Your Retirement Investments

Look for the Investor Education at Your Library program coming to libraries across California and the nation. The Sacramento event will take place in April 2006. The Department of Corporations is proud to participate in this investor education initiative. Look for more details about the program in the coming months at www.corp.ca.gov





Financial & Investment News

Seniors Should be on the Lookout for Annuity Fraud

Con Artists Use Living Trust Mills and Other Deceptive Practices to Trick Seniors into Purchasing Unsuitable Annuities

A common practice among financial sales agents is to offer **free seminars and presentations** in order to solicit business. These presentations are often held at assisted living centers, retirement communities, churches or upscale restaurants. The sales agents may claim to be offering free or low-cost living trust or financial planning.

Offering something for “free” seems to get the attention of many senior citizens living on fixed incomes. A free lunch and personal consultation can be very appealing to some. The agent also offers a free individual follow-up session in the senior’s home, gaining the trust of unsuspecting seniors who reveal their personal financial information for what they think is a living trust or financial consultation.



“... the sales agent is seeking to gain the seniors’ financial information in order to try to sell them an unsuitable financial product, often an annuity.”

Here’s where the con comes in. The agent is not really in the business of providing living trust and financial services and does not even have the licenses needed to perform such services. Instead, the sales agent is seeking to gain the seniors’ financial information in order to try to sell them an unsuitable financial product, often an annuity. Agents who are neither attorneys nor licensed investment advisors may, recommend that seniors liquidate securities positions

(such as stock) and use the proceeds to purchase indexed or variable annuities. Such agents subject themselves to possible enforcement action by the California Department of Corporations since it is generally unlawful for anyone to give advice about buying or selling securities unless they are licensed as investment advisers.

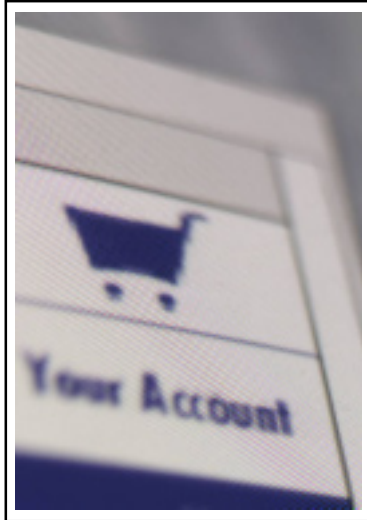
Annuities are complex insurance products with high commissions and long holding periods, as well as stiff penalties for early withdrawals, which make them unsuitable for many older investors. These “fine print” restrictions could pose major problems for seniors facing health care or other emergencies. Their money may not be available when they need it most.

Consumers who feel they have been victimized by an annuity scam should report it to their local district attorney or the California Department of Insurance at 1-800-927-HELP (1-800-927-4357).



Financial & Investment News

When Shopping Online Beware of Fake Online Escrow Sites



More and more shoppers are skipping the trip to the mall and buying goods over the Internet. While the ease and convenience of shopping from home are appealing to many consumers, there can be risks involved when conducting business online.

Many online auction sites and marketplaces sell expensive items like computers, electronics, jewelry and even cars over the Internet. Some Internet auction sites, such as eBay, recommend that their users pay for purchases over \$500 through an **online escrow company**.

Escrow companies exist to provide an extra level of trust in a transaction and protection for both the buyer and seller. They act as an independent third party between buyers and sellers. After an escrow company receives the buyer's check, money order or credit card payment, the company notifies the seller to ship the purchase to the buyer. The escrow company does not send the buyer's payment to the seller until the buyer receives the item. The escrow company usually charges a service fee to the buyer, which is generally a percentage of the item's cost.

Companies performing escrow services via the Internet for California consumers are subject to the licensing requirements of the California Escrow Law. There have been numerous situations where consumers have fallen victim to a phony Internet escrow site either as buyers or sellers. In the first instance, a buyer will be referred to a phony Internet escrow site, send the payment to the phony site and never receive the merchandise. In the second instance, a seller will receive a confirmation of payment to the phony site (usually by e-mail), sends the merchandise to the address provided by the scam artist, but never receives payment.

The moral: be careful when choosing an escrow company. Some phony Internet escrow sites falsely advertise they are licensed by the Department of Corporations and even link directly to the Department's licensee listing on its Web site. California consumers can call the Department of Corporations toll-free at 1-866-ASK-CORP (1-866-275-2677) to make sure the escrow company is properly licensed. There are approximately 650 independent escrow companies in California licensed by the Department of Corporations and **only one** online escrow service: www.escrow.com (Internet Escrow Services, Inc.). So any other company offering online escrow services other than www.escrow.com is operating without a valid California license.

If you think you are a victim of an online escrow scam, you should file a complaint with the California Department of Corporations. Complaint forms can be found at www.corp.ca.gov or call 1-866-ASK-CORP (1-866-275-2677) to have one mailed to you. Consumer alerts and additional information about Internet escrow fraud can also be found on the Department's Web site at www.corp.ca.gov

Department of Corporations **BY THE NUMBERS**

Regulatory Licensing

Licensees as of November 30, 2005

Broker-Dealers	3,509
Agents or Registered Representatives	241,699
State Investment Advisers	2,963
Investment Adviser Representative or Associated Persons	36,974





SAIF CORNER

Seniors Against Investment Fraud

SAIF Contractors

As of November 1, 2005, SAIF has **15 total active contractors**, comprised of non-profit organizations and governmental agencies. SAIF contractors disseminated SAIF materials at scheduled presentations and events within their perspective counties. The contractors' efforts have been outstanding and they continue to seek updated information from the Department.

The **SAIF contractors** and counties served are as follows:

Shasta RSVP - Shasta County

Central Coast RSVP – San Luis Obispo and Santa Barbara Counties

Legal Aid of Marin – Marin County

Conejo Recreation and Park District (Goebel Senior Center) – Thousand Oaks/Ventura County

WISE Senior Services – Santa Monica/West Los Angeles

Elder Financial Protection Network - Contra Costa and Sonoma Counties

CARE Elder Abuse Program – Riverside County

RSVP of San Mateo – San Mateo County

RSVP Of San Francisco – San Francisco

RSVP Of Greater Whittier – Whittier / Los Angeles County

RSVP West Valley – San Bernardino County

Kings/Tulare Area Agency on Aging – Kings/Tulare Counties

Congress of California Seniors RSVP – Sonoma County

RSVP South Bay – Los Angeles County (Torrance, South Bay, Gardena, Lawndale)

Aging & Independent Services – San Diego County

Senior Saved from Latest Boiler-Room Scam

A notorious **boiler-room*** operator in Orange County is currently offering an investment that has all the red flags of fraud.

A Placerville senior was solicited to invest to this company and actually sent her check to them. They sent it back to her tattered and dirty, claiming that as a result of “new staff” they needed her to write a new check. The situation struck her as odd, so she contacted the Better Business Bureau. The General Manager of the BBB immediately sent one of our SAIF staff members an email.

Our SAIF staff member contacted the senior on the phone and advised her to proceed with care. The minimum investment was supposed to be \$25,000, but they were willing to take \$12,500 from her for a “half unit.” The SAIF staff member told her that the willingness to accept less than the supposed minimum is one of the red flags of fraud.

As a result, the senior says she's no longer interested and will simply put the offering materials in the mail to SAIF staff for review and possible forwarding to enforcement staff attorneys.

**What is a Boiler-Room?*

A boiler-room is a telemarketing operation involving employees working in close quarters to call sales prospects on so-called ‘sucker lists’ and pressure them to buy goods or services over the phone. Fraudulent securities offerings are often sold through boiler-room operations which are most commonly located in Orange County or the San Fernando Valley.



ENFORCEMENT ZONE

Highlighted Legal Cases of 2005

The following are highlights of legal cases resulting from enforcement actions initiated by the Department's Enforcement division throughout 2005.

- Tropical Village, Inc., Clarity Development Corporation, Senior Adult Living, Inc., Patrick B. Kirkland, Ana Rodriguez, Laura M. Wade and Van Jacobs

On November 29, 2005 the Department filed a civil action for violations of the Corporate Securities Law including failure to disclose prior Desist and Refrain Orders and unqualified offers and sales. After each Desist and Refrain Order, the defendants opened up a new company and continued to sell the illegal investments. Defendants sold investment contracts in homes to be developed for seniors. These homes were to be located in Florida and other states; the defendants advertised in the Los Angeles Times and other publications. The Court issued a Temporary Restraining Order against the defendants enjoining them from violating the law.

- Devin Grant Rockefeller, Jason Williamson, Robert I. Gorrie, Anthony R. Stark and Blake Wilson

On November 15, 2005 a criminal case was filed against 5 defendants involved in the Scantech Imaging investment scheme. The purpose of the investment was to finance, develop, own and operate a medical imaging center in the southern California area. The center was expected to be a "state of the art" outpatient clinic that offered technology to provide coronary artery scans and full-body scans to "health conscious Americans." The Department previously filed a civil action that resulted in a permanent injunction and restitution in the amount of \$2,765,650.00 and civil penalties in the amount of \$7,700,000.00.

- Leedha, Inc. d.b.a. Flintridge Asset Management Company and Earl D. Anschutz

On December 5, 2005 the Department filed a civil action for violations of a Desist and Refrain Order, unlicensed investment adviser activity and fraud. Defendants offered investment advisory services even after the revocation of the license on October 3, 2005 for books and record violations and over-billing clients and in violation of a D & R issued in 2001. The Court issued a Temporary Restraining Order against the defendants enjoining them from violating the law.

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- Advanced Capital, Inc.

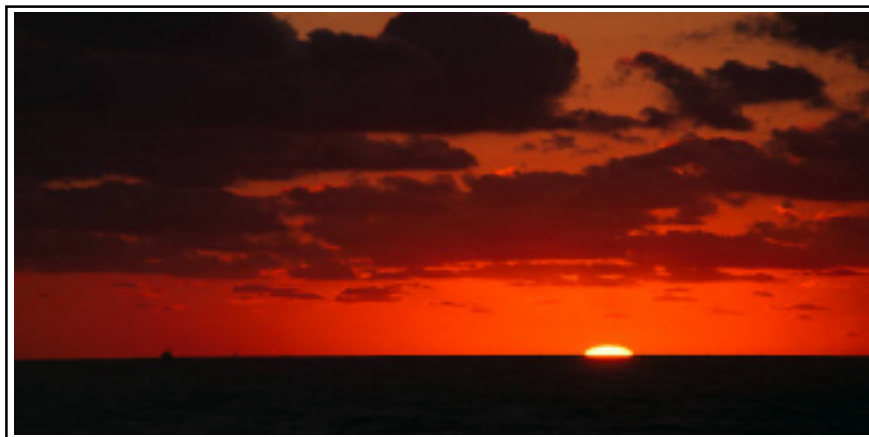
The Commissioner issued a Desist and Refrain Order for unlicensed lender activity to Advanced Capital. Advanced Capital offered a “cash rebates program” whereby the customer agreed to purchase a pre-paid long distance telephone card and was given an instant cash rebate ranging from \$50.00 to \$700.00. Customers were then required to re-charge the phone card every two weeks for a set fee, for example, charging \$105.00 every two weeks for 52 weeks would give the customer a \$500.00 rebate. The cash rebates were loans subject to the requirements of the California Finance Lenders Law, giving the Department jurisdiction in the matter.

- World Link Trading Corporation

Criminal charges were filed alleging violations of the Corporate Securities Law against the company’s promoter, Mohammed Ramzan. Ramzan was on an INS hold and the charges were filed to prevent his deportation to Pakistan. Ramzan sold stock to at least 30 investors totaling \$600,000. Investors were solicited by means of flyers distributed at mosques. The alleged purpose of the investments was to provide loans in accordance with Islamic law (no interest) to some of the investors; however, no loans were made.

- Prasad, Rajenda Satyendra

Defendant Prasad pled guilty to 11 felony counts involving violations of Corporate Securities Law. He sold securities to unsophisticated investors by means of fraud and was also charged with obtaining money by false pretenses. The Court approved a plea agreement that will result in a 17-year prison sentence, which will be suspended upon the condition that Prasad make restitution to the victims. Defendant Prasad also agreed to serve a one-year sentence in an alternative county jail program, a minimum five years of supervised probation and to surrender his passport. The probation office will determine the exact amount of restitution due to each of the victims.



DEPARTMENT OF CORPORATIONS



THE DEPARTMENT OF CORPORATIONS is California's Investment and Financing Authority. The Department regulates, enforces and licenses securities, franchises, off-exchange commodities, investment and financial services, independent escrows, consumer and commercial finance lending and residential mortgage lending. We are the last line of defense for many of the most significant financial transactions that Californians make, from mortgages to retirement plans.

The Department of Corporations also:

- Works collaboratively with Securities and Exchange Commission, the Federal Trade Commission, the U.S. Attorney's offices, District and City Attorneys' offices, police and sheriffs' departments, and others to protect California consumers.
- Receives approximately 100,000 calls a year at Consumer Resource Center's toll-free hotline and regulates almost 300,000 licensees.

EDUCATION AND OUTREACH

Our goal is to stop financial fraud before it happens. Teaching consumers to *'investigate before they invest'* helps prevent fraud and the expensive enforcement actions that occur as a result.



Seniors Against Investment Fraud (SAIF) Program

alerts and educates Californians over 50 about investment fraud, predatory lending, and how to avoid being victimized.



California Troops Against Predatory Scams (TAPS) Program

alerts and educates California's service members and their families about investment fraud, predatory lending, and how to avoid being victimized.

HELP US PROTECT CALIFORNIANS

Call the number below with any questions or complaints. If necessary, we will refer you to the appropriate agency. For investor education information, please visit the Department of Corporations website.

1-866-ASK-CORP
2 7 5 - 2 6 7 7

www.corp.ca.gov